

Fairfax County Economic Index

Volume IX, Number 2

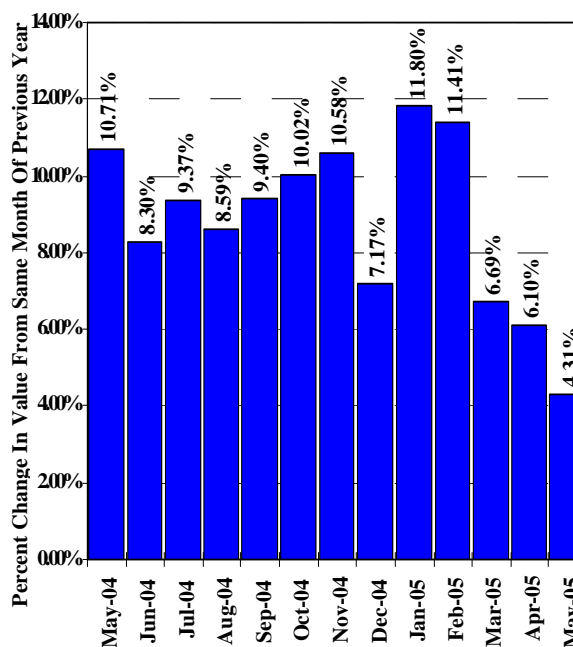
July 2005

The County's Economic Expansion Continues

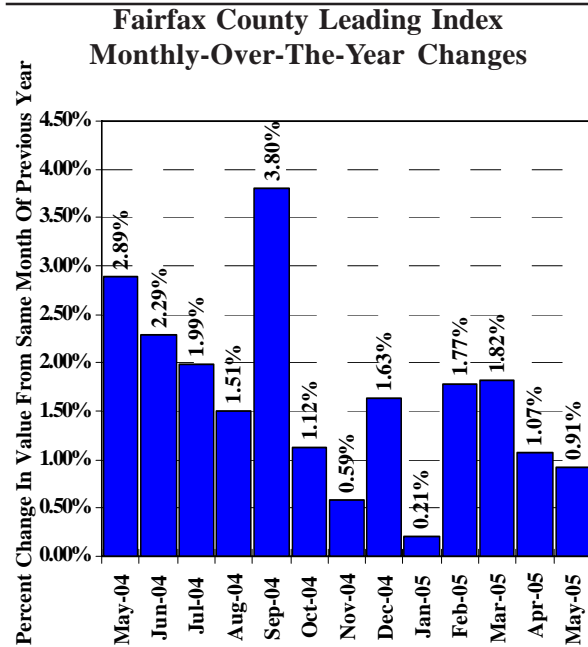
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 133.13 in May for a gain of 0.68 percent. With this increase, the Index has increased in two of the last three months and in three of the year's first five months. On a monthly over-the-year basis, the Index was up 4.31 percent, extending its positive trend to an eighteenth consecutive month. In May, two of its four indicators were positive.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased in May following three down months; and,
- Consumer confidence (in the present) rebounded after registering its first negative month of the year in April; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, declined for a second month; and,
- Total employment decreased slightly after gains in March and April.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 108.18 in May for a gain of 0.61 percent following its first decrease for the year in April. On a monthly over-the-year basis, May's Index value was up 0.91 percent and has now increased for twenty-six consecutive months on a monthly over-the-year basis. May's Index gain reflected a sharp increase in consumer expectations that more than offset modest declines in its other components.

- Consumer expectations (consumer confidence six months hence) rebounded sharply in May nearly erasing its losses of the two preceding months; while,
- New automobile sales decreased in May for the third time in four months; and,
- Initial claims for unemployment insurance increased (worsened) marginally for a second month after registering three monthly declines between January and March.

The Fairfax County economy extended its expansion in May registering gains in both its Leading and Coincident Indices. With the Leading Index up for a twenty-sixth consecutive month (compared to same-month values in the preceding year), this expansion appears likely to extend into early 2006 at a minimum. The power behind this expansion is seen

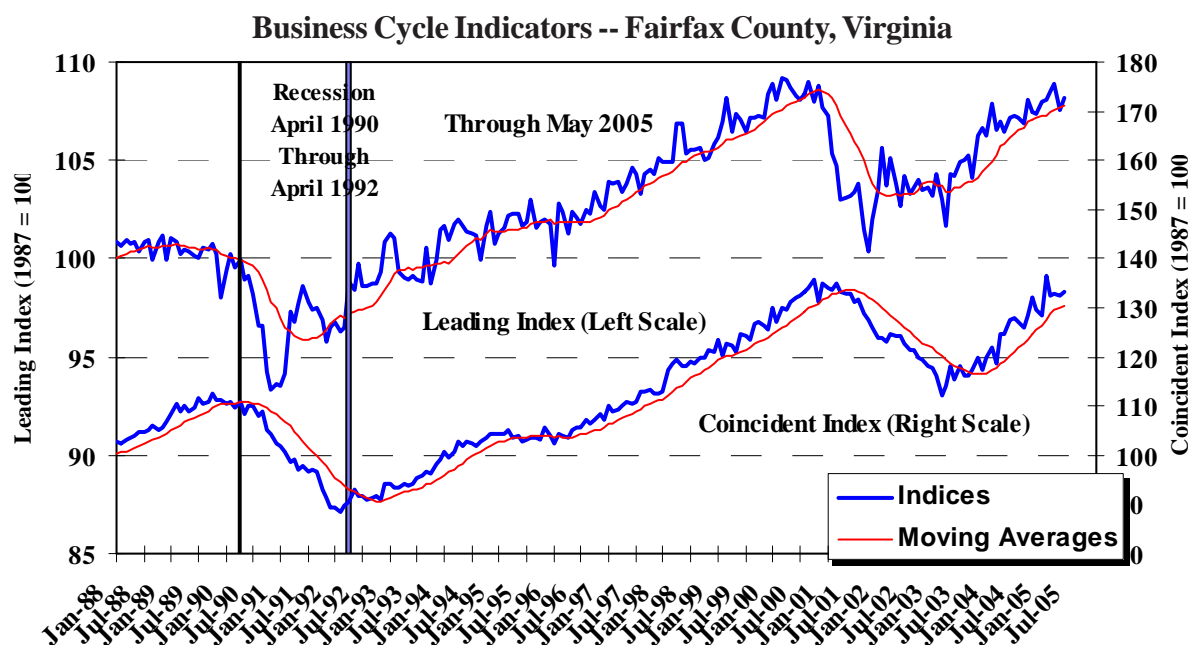
in the slopes of both Indices. Since they turned positive at the beginning of 2003 the slopes have been sharper than following the previous downturn in the early 1990s. The strength of this current expansion is seen in its job growth and continuing strong consumer spending that provides further evidence that the jobs gains are generating higher wages; that is, the new jobs are good jobs. May's performance represents a recovery from slower growth in April and points to these gains extending beyond the second quarter.

CURRENT CONDITIONS

Job growth in the Washington metropolitan area has averaged (annualized) slightly less than 80,000 through the first six months of 2005, leading the nation for the fifth consecutive year, and far exceeding last year's gain of 64,400 new jobs. Job gains in Northern Virginia are averaging about 53,000, accounting for two-thirds of the metropolitan area increase. Fairfax County continues to generate the largest number of new jobs of any jurisdiction within the region, adding an estimated 25,620 new jobs over the June 2004-2005 period for a 4.4 percent increase. At this rate of job growth, Fairfax County is accounting for approximately one-half of job gains in Northern Virginia and almost one-third of the region's job growth.

With job growth continuing at this level, regionally and locally, the other labor market indicators also remain strong. Unemployment at the County level has averaged 2.5 percent over the first half of 2005 and 3.5 percent at the metropolitan level; for the metro area, Washington continues to have the second lowest unemployment rate after Orange County (CA) among major metropolitan areas nationwide. While initial claims for unemployment insurance were up slightly in May on a seasonally adjusted basis (they were down on an absolute basis), they remain very low and only reflect normal fluctuations in the market. By all measures, the labor market stands at "full employment" and the availability of qualified workers has already become a constraint to achieving the County's and Northern Virginia's economic growth potential. The result of this tight labor market will be higher labor costs and lost output due to increasing job vacancies.

The other primary indicators were mixed in May. Consumer confidence increased sharply eras-



Source: Center for Regional Analysis, George Mason University

ing almost all of its recent losses. However, consumer spending softened slightly in spite of this increased confidence. Sales tax collections were off marginally on a seasonally adjusted basis and auto sales also declined on a seasonally adjusted basis. Both indicators actually increased in absolute values but not enough to offset seasonal factors.

The County's consumer spending potential is greater than the sales actually taking place. Reasons for this range widely but do not point to any fundamental weaknesses in the economy. Auto sales are sensitive to sales promotions and energy price changes while more general retail sales are weather sensitive and can be influenced by vacation travel and holiday sales. Changes in energy prices also have impacted retail sales. Still, through five months, retail sales in the County are ahead of sales for the same period in 2004 by 2 percent adjusted for inflation. With gasoline prices up 30 percent over this period siphoning disposable income away from discretionary retail sales, the growth in retail sales in 2005 over 2004 provides a good measure of the economy's overall resilience.

NEAR-TERM OUTLOOK

The Leading Index continues to provide a clear signal that the economic expansion currently

underway in Fairfax County will extend into 2006. Consumer expectations are up for the year and the strong job market is generating strong gains in output, wages, and business activity cutting across all sectors (except manufacturing). The breadth of the expansion spanning both externally and internally dependent markets suggests that it is maturing and that it has passed through the acceleration stage and is now in transition to the deceleration stage. The slowing growth of the Leading Index reflects this pattern. In May of 2004, it was up 2.9 percent; in May 2005, it was up 0.9 percent.

While the outlook remains good for the remainder of 2005, there are national and global forces in play that will likely act to slow the County's growth over the second half of the year and into 2006. These forces include continuing high energy costs, slowly rising interest rates, and uncertainty in financial markets caused by threats of terrorism, the war in Iraq, and high housing prices. While not all of these threats and concerns are real, they have impacted consumer and business spending and affect federal policies in ways that could slow spending (or increase it) in the County in the future. Currently, the strength and resilience of the County's economy have sustained its performance at a level at least equal to 2004, its best year since 2000.

Fairfax County, Virginia Economic Indicators Current and Previous Months

| Economic Indicator | Estimates | | | Percent Change | |
|---|-------------------|-----------------|-----------------|------------------------|------------------------|
| | May-05 Prelim. | Apr-05 Final | May-04 Final | Apr-05 to May-05 | May-04 to May-05 |
| Fairfax County Business Cycle Indicators | | | | | |
| Coincident Index (1987 = 100) | 133.13 | 132.24 | 127.63 | 0.68 | 4.31 |
| Leading Index (1987 = 100) | 108.18 | 107.53 | 107.20 | 0.61 | 0.91 |
| Fairfax County Coincident Index Components | | | | | |
| Estimated Total Wage & Salary Employment (Seasonally Adjusted) | 612,359 | 612,912 | 586,768 | -0.09 | 4.36 |
| <i>Estimated Total Wage & Salary Employment (Unadjusted)</i> | <i>613,075</i> | <i>607,831</i> | <i>587,455</i> | <i>0.86</i> | <i>4.36</i> |
| Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted) | 753 | 714 | 720 | 5.40 | 4.52 |
| <i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i> | <i>1,365</i> | <i>1,241</i> | <i>1,250</i> | <i>9.98</i> | <i>9.14</i> |
| Sales Tax Receipts (\$'000='87, Seasonally Adjusted) | 8,892 | 9,164 | 9,145 | -2.98 | -2.78 |
| <i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i> | <i>12,041</i> | <i>12,030</i> | <i>12,029</i> | <i>0.09</i> | <i>0.10</i> |
| South Atlantic Consumer Confidence | 142.0 | 134.2 | 121.5 | 5.81 | 16.87 |
| Fairfax County Leading Index Components | | | | | |
| New Automobile Registrations (Seasonally Adjusted) | 5,225 | 5,497 | 5,553 | -4.94 | -5.91 |
| <i>Automobile Registrations (Unadjusted)</i> | <i>5,768</i> | <i>5,404</i> | <i>6,130</i> | <i>6.74</i> | <i>-5.91</i> |
| Initial Unemployment Claims (Seasonally Adjusted) | 874 | 873 | 962 | 0.14 | -9.08 |
| <i>Initial Unemployment Claims (Unadjusted)</i> | <i>801</i> | <i>865</i> | <i>881</i> | <i>-7.40</i> | <i>-9.08</i> |
| South Atlantic Consumer Expectations (Unadjusted) | 104.8 | 92.2 | 101.4 | 13.67 | 3.35 |
| Fairfax County Labor Force | | | | | |
| Total Labor Force (Seasonally Adjusted) | 591,260 | 587,406 | 578,508 | 0.66 | 2.20 |
| <i>Total Labor Force (Unadjusted)</i> | <i>593,613</i> | <i>586,466</i> | <i>580,810</i> | <i>1.22</i> | <i>2.20</i> |
| Employed Labor Force (Seasonally Adjusted) | 575,576 | 571,438 | 566,345 | 0.72 | 1.63 |
| <i>Employed Labor Force (Unadjusted)</i> | <i>577,758</i> | <i>571,755</i> | <i>568,492</i> | <i>1.05</i> | <i>1.63</i> |
| Unemployed Labor Force (Seasonally Adjusted) | 15,684 | 15,968 | 12,163 | -1.78 | 28.95 |
| <i>Unemployed Labor Force (Unadjusted)</i> | <i>15,855</i> | <i>14,711</i> | <i>12,318</i> | <i>7.78</i> | <i>28.71</i> |
| Unemployment Rate (Percent, Seasonally Adjusted) | 2.65 | 2.72 | 2.10 | -- | -- |
| <i>Unemployment Rate (Percent, Unadjusted)</i> | <i>2.67</i> | <i>2.51</i> | <i>2.12</i> | <i>--</i> | <i>--</i> |

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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